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May 9, 2006

VIA ELECTRONIC FILING AND HAND DELIVERY

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 06-07

Dear Ms. Cottrell:

Enclosed on behalf of Bay State Gas Company ("Bay State"), please find an original and 3 copies of Bay State's Initial Brief in the above matter.

Please do not hesitate to contact me at (508) 836-7394 or Robert L. Dewees, Jr., of Nixon Peabody LLP at (617) 345-1316 with any questions concerning this filing. Thank you for your assistance with this filing.

Very truly yours,

Patricia M. French

cc: Andrew O. Kaplan, Esq., General Counsel, DTE (for Denise Desautels, Hearing Officer)  
Andreas Thanos, Assistant Director, Gas Division, DTE  
Ken Dell Orto, Analyst, Gas Division, DTE  
Jamie M. Tosches, Assistant Attorney General, Office of the Attorney General

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**INITIAL BRIEF  
OF  
BAY STATE GAS COMPANY**

**D.T.E. 06-07**

**REQUEST FOR APPROVAL OF  
NORTHEAST ENERGY ASSOCIATES AGREEMENT**

**May 9, 2006**

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## **I. INTRODUCTION**

On January 27, 2006, Bay State Gas Company (“Bay State”) filed its petition with the Department of Telecommunications and Energy (“Department”) for approval of a Long Term Gas Supply and Capacity Agreement with Northeast Energy Associates (“NEA”). Bay State seeks approval of the Agreement by June 30, 2006.

On February 28, 2006, following notice duly provided, the Department held a procedural conference at its offices in Boston. The Attorney General sought and was granted intervenor status. Discovery took place and on April 18, 2006, Bay State moved for the admission of its Petition (Exh. BSG-1), the direct prefiled testimony and exhibits of Francisco C. DaFonte, its responses to the Department’s first set of information requests (Exh. DTE-1-1 through Exh. DTE-1-14), its responses to the Attorney General’s first and second sets of information requests (Exh. AG-1-1 through Exh. AG-1-15, and Exh. AG-2-1 through Exh. AG-2-3). Bay State also filed responses to certain record requests issued at the hearing (RR-AG-1 through RR-AG-4).

As part of its initial filing, Bay State asked the Department to grant protective treatment over certain selected pages of prefiled testimony and exhibits that include the price and volume information that Bay State provided in its SENDOUT® optimization model (“SENDOUT®”). The Department granted Bay State’s requests for protection. Hearing Officer’s Order, dated March 3, 2006.

## **II. DESCRIPTION OF THE LONG TERM SUPPLY AND CAPACITY AGREEMENT**

The NEA Agreement will provide Bay State with a baseload gas supply service of 48,000 Dth per day at or near Centerville, New Jersey at the interconnect of Transcontinental Gas Pipe Line Corporation ("Transco") and Algonquin Gas Transmission Company ("AGT") commencing on November 1, 2006 and continuing for a primary term through March 31, 2011, with NEA having the right, prior to September 1, 2010, to extend the gas supply service through November 30, 2016. Throughout this term, Bay State must purchase 48,000 Dth per day from NEA during the winter months of November through March. However, Bay State has the option to elect not to take any supply service during two months, November and March, if operational reasons dictate such a choice.

The commodity price of the supply service under the NEA Agreement is stipulated. See CONFIDENTIAL Exhibit FCD-1, para. (a) ("BASELOAD GAS SUPPLY COST"). No demand charge is associated with this service.

Under the NEA Agreement, NEA will permanently release to Bay State 48,000 Dth per day of AGT's firm transportation capacity under Rate Schedule X-35 commencing on November 1, 2006 at the prearranged rate of \$9.25 per Dth through December 31, 2008. Further, for the period January 1, 2009 through November 30, 2016, NEA will permanently release to Bay State this same AGT capacity at the then current

FERC-approved maximum tariff rate.<sup>1</sup> If no supply service is elected in November or March, as described above, Bay State may release the AGT capacity to NEA at the then applicable maximum tariff rate for each of the months of November and March.

The complete terms of the NEA Agreement are set forth in CONFIDENTIAL Exhibit FCD-1. The upstream capacity path utilized by NEA to deliver gas supply to AGT is reasonable and appropriate. NEA holds firm transportation capacity on Dominion Transmission, Inc. ("DTI") from Niagara, New York to the interconnect between DTI and Transco. NEA also holds primary transportation capacity on Transco from the upstream interconnect with DTI to the downstream interconnect with AGT, at Centerville.

NEA has the right to assign the DTI and Transco transportation capacities to Bay State during the term of the Agreement. Further, in the event that NEA decides to assign the upstream capacity to a non-affiliated third party or does not renew the capacity with either DTI or Transco, Bay State has the first right to take assignment of this transportation capacity, upon termination, at the then current maximum tariff rate or a lesser rate that may be negotiated.

### **III. STANDARD OF REVIEW**

The Department applies a public interest standard for approval of incremental capacity resources under G.L. c. 164, sec. 94A. Commonwealth Gas Co., D.P.U. 94-174-

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<sup>1</sup> This release will take place prior to November 1, 2006.

A at 27 (1996). In order to make the requisite demonstration that the acquisition of incremental capacity is in the public interest, the local distribution company ("LDC") must show the acquisition to be consistent with portfolio objectives and that the selected resource compares favorably with a range of alternative options reasonably available to the LDC and its customers, at the time the acquisition is made. Id. In the present case, Bay State's incremental acquisition satisfies these criteria and accordingly, Bay State requests that the supply capacity resources described in this filing be approved as in the public interest.

**IV. THE AGREEMENT BETWEEN BAY STATE AND NEA IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED**

**A. THE ACQUISITION IS CONSISTENT WITH BAY STATE'S PORTFOLIO OBJECTIVES**

When determining whether a resource provides a consistent fit with an LDC's portfolio objectives, the Department looks to recently approved portfolio objectives from the company's most recent resource plan or recent review of supply contracts, relying as well upon the company's description of its objectives in seeking the proposed resource. See, Commonwealth Gas Co., D.T.E. 94-174-A at 27; see Fitchburg Gas and Elec. Light Co., D.T.E. 02-55 at 3.

As Mr. DaFonte testified, the incremental resource acquisition of NEA supply and capacity contributes to Bay State's goal of developing a best-cost portfolio. Exh. BSG-1 at 4, 5, 23-24. Bay State's planning process seeks to acquire and manage resources in a manner that achieves a best-cost resource portfolio for its customers, thereby balancing

cost with non-cost criteria such as reliability, flexibility and viability. Exh. BSG-1 at 11. Ultimately, the goal of a best-cost portfolio is to achieve adequate and reliable service at a reasonable cost. Exh. BSG-1 at 11. The NEA Agreement is incremental because it will specifically serve the requirements of Bay State's Brockton Division. Exh. BSG-1 at 23.

As Bay State reviews its portfolio, it seeks to satisfy these objectives: (1) to reduce portfolio cost; (2) to maintain portfolio reliability (which includes enhancing diversity in both transportation and supply); (3) to provide flexibility necessary for Bay State to respond to demands on its system; and (4) to acquire viable resources. Exh. BSG-1 at 11. In selecting the proposed replacement capacity among other alternatives, Bay State employed its resource planning process, analytical tools and assessment methods to perform long-range planning and evaluation of resource adequacy. It determined that customer requirements indicated increased design demand, tested the criteria, and measured its existing resource adequacy against the increased demand. Exh. BSG-1 at 12-13; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-7; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-9; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-10; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-11.

Then Bay State conducted its resource evaluation, testing the need by using SENDOUT® based on its current requirements forecast. Exh. BSG-1 at 18, 19, 20; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-9; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-10; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-11. In order to use SENDOUT®, Bay State identified a number of potential resources to meet its

requirements including renewal or restructuring of existing resources as well as potential new pipeline, storage, citygate and on-system resources.<sup>2</sup> Id.

As Mr. DaFonte testified, Bay State's resource evaluation encompassed the assessment of both the cost and non-cost characteristics of potential resources. Id. The SENDOUT® cost analysis evaluates the impact of cost changes on Bay State's portfolio by simulating the daily dispatch of available resources under specified conditions. Exh. BSG-1 at 12-13. SENDOUT® can evaluate a least-cost incremental resource or package of resources based on the total cost impact upon the existing portfolio. Id. Because SENDOUT® is only one evaluative tool, Mr. DaFonte testified that Bay State evaluates the non-cost characteristics of alternative resources including reliability, flexibility and viability through other assessment techniques, including scoring. Exh. BSG-1 at 13.

The Department has reviewed Bay State's planning objectives and methods in the context of periodic Integrated Resource Plan ("IRP") proceedings, as well as in conjunction with previous requests for approval of specific resource decisions.<sup>3</sup> See, e.g., Bay State Gas Co., D.T.E. 02-75 (2004); Bay State Gas Co., D.T.E. 03-32 (2004); Bay

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<sup>2</sup> Bay State notifies retail suppliers of material changes to its portfolio that would affect the quantity and type of capacity assigned to third-party customer pools under the Department's existing capacity assignment regulations. Exh. BSG-1 at 13-15; Exh. BSG-1 at Exhibit FCD-6.

<sup>3</sup> The NEA Agreement is incremental because it is specifically serving the requirements of the Company's Brockton Division. Exh. BSG-1 at 23. Bay State described the factors leading to its decision to acquire incremental pipeline deliverability to Brockton in its most recent IRP. Bay State Gas Co., D.T.E. 02-75 (2004); see also, D.T.E. 04-58. It is important to note that Bay State's cost evaluation of its alternative resource options was finalized at the same time as its IRP filing. The primary SENDOUT® analyses in this proceeding are the same as those presented in D.T.E. 02-75. See Exh. DTE-1-5.



State Gas Co., D.T.E. 02-52 (2002); Bay State Gas Co., D.T.E. 00-52 (2000). Bay State has consistently followed the approved method of creating a “best cost” portfolio. See, e.g., Bay State Gas Co., D.P.U. 93-129 (1996) at 49. Bay State has consistently applied those methods to this resource selection. See, Bay State Gas Co., D.T.E. 03-32 (2003); Bay State Gas Co., D.T.E. 03-37 (2003); Bay State Gas Co., D.T.E. 04-58 (2004); Bay State Gas Co., D.T.E. 05-48 (2005); Bay State Gas Co., D.T.E. 06-48 (pending). Since the Department previously determined that Bay State’s portfolio objectives and its resource acquisition process were appropriate and reasonable, and since those techniques were followed here, the first criteria has been satisfied for the Department to find the replacement resource consistent with the public interest.

**B. THIS INCREMENTAL CAPACITY COMPARES FAVORABLY TO  
THE RANGE OF AVAILABLE ALTERNATIVES AT THE TIME**

Bay State performed detailed cost simulations using SENDOUT® over a five-year period beginning November 1, 2006. Exh. BSG-1 at 18. A five-year period was utilized because some of the alternatives evaluated include incremental pipeline capacity having a minimum term of five years, which is consistent with the contract terms under the NEA Agreement. Exh. BSG-1 at 18.

Since the NEA Agreement included the cost of AGT capacity, a comparison of the top alternatives with AGT citygate service was conducted. Exh. BSG-1 at 18. Further, because some of the bids were for less than five years and did not meet the required MDQ requested in the RFP, in order for Bay State to make an appropriate

comparison of the bids, the top two bids for AGT citygate service were combined and assumed to continue for a five-year period. Exh. BSG-1 at 18-19.

SENDOUT<sup>®</sup> was used first to determine Bay State's need and the optimal amount of supply and capacity that would be required from the array of resource alternatives. Exh. BSG-1 at 19. SENDOUT<sup>®</sup> produced this comparison by conducting a resource mix analysis, which selects the optimal amount of supply and/or capacity for each alternative over the five-year planning period given Bay State's forecasted load requirements. Exh. BSG-1 at 19. SENDOUT<sup>®</sup> selected 100% (48,000 Dth per day net of fuel) of the available MDQ associated with the NEA Agreement including the AGT capacity starting in Year 3 of the forecast period. Exh. BSG-1 at 19; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-9 at 19. Mr. DaFonte also explained that while a portion of an alternative resource was also required commencing in Year 3 of the 5-year planning horizon, the Company would be exploring additional alternatives in the future to resolve that need. Exh. BSG-1 at 19.

SENDOUT<sup>®</sup> was also relied upon to compare the NEA Agreement to the combined top two bids for AGT citygate service by calculating the total portfolio cost under each alternative. Exh. BSG-1 at 19-20. The SENDOUT<sup>®</sup> analysis demonstrated that the NEA Agreement is a cost-effective resource and contributes to a lower cost portfolio. Id. The projected portfolio savings associated with selecting the NEA Agreement over the five-year period is approximately \$17.3 million. Exh. BSG-1 at 20;

Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-10 at 16; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-11.

With regard to its evaluation of non-price factors, Bay State evaluated the bids based on the non-price criteria of reliability, flexibility, and supplier viability. Exh. BSG-1 at 20; Exh. BSG-1 at Exhibit FCD-12.

Bay State scored these criteria consistent with its past practice. Exh. BSG-1 at 20-21. Each of the alternatives was deemed to offer the maximum supply security because of the assurance that primary delivery points would be used. Id. For portfolio diversity, the NEA Agreement was given the highest score because it is not presently a long-term or spot supplier to Bay State. Id. Because of this, it is deemed to increase the diversity of Bay State's suppliers, thereby improving reliability. Id.

Because the service requested was for a baseload gas supply, the non-price factor of flexibility did not play a significant role: all alternatives were given the maximum score because they all offered the same baseload services. Exh. BSG-1 at 21. Viability was scored according to the financial integrity of the bidder. Two bidders received the highest score due to their high credit rating. Exh. BSG-1 at 21; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-13.

In the final analysis, the evidence shows that the NEA Agreement scored better than the other alternatives when compared on non-cost criteria. Exh. BSG-1 at 21; Exh. BSG-1 at CONFIDENTIAL Exhibit FCD-13.

Based on this analysis, Bay State concluded that the NEA alternative was clearly the superior alternative available to Bay State at the present time from a cost and a non-cost perspective, offering superior support for the incremental supply and capacity needs of Bay State's Brockton division. Exh. BSG-1 at 23-24.

## **V. CONCLUSION**

Bay State employed the Department-approved resource evaluation process to identify the NEA Agreement for supply and capacity as the superior alternative available to Bay State in the market. The price and non-price factors are preferable to the alternatives available and the Agreement offers superior reliability, diversity and flexibility.

WHEREFORE, for all the reasons set forth in this Initial Brief, Bay State Gas Company respectfully requests that the Department of Telecommunications and Energy grant its approval, pursuant to G.L. c. 164, sec. 94A, of the incremental supply and capacity agreement with Northeast Energy Associates (Exh. BSG-1 at Exhibit FCD-1) as consistent with the public interest.

Respectfully submitted,

BAY STATE GAS COMPANY

By its Attorney,

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